

United States Senate

WASHINGTON, DC 20510 - 3505

May 16, 2017

President Donald Trump
The White House
Washington, D.C. 20500

Dear President Trump:

I write in regard to the Administration's pursuit of a 100 Day Plan on trade with China. I appreciate you making it a priority to reset U.S.-China trade relations, and I encourage you to use this opportunity to secure China's commitment to make specific policy changes, particularly on steel overcapacity and government subsidies. Unless China is forced to make demonstrated, long-term adjustments to its industrial policies, China will continue to distort global markets and disadvantage U.S. companies and their workers.

State Intervention and Subsidy Programs

It is very difficult for U.S. companies and their workers to compete against the Chinese government and its policies that have caused global market distortions. In the steel sector, for example, China accounts for approximately half of global production and more than half of the world's estimated 700 million tons of excess capacity. China's overcapacity has flooded the global market, forcing U.S. steel companies to idle mills and lay off U.S. steelworkers. Nine of the 10 largest Chinese steel companies are owned by the Chinese government. Even steel mills not owned by the government are able to operate without market consideration because they get massive support from the government through a variety of provincial and national subsidy programs that allow these facilities to stay open despite not being viable.

These national and provincial programs include cash grants, capital infusions, equity infusions and conversions, government-mandated mergers and acquisitions, discounted land use, subsidies for utilities, raw material price controls, tax policies and benefits, currency policies, and lax enforcement of environmental regulations. In addition, the preferential financing of Chinese steel producers by Chinese government-owned banks insulates these companies from market forces and allows them to continue to operate despite huge financial losses.

China's involvement and these subsidy programs are not limited to the steel sector, however, and state intervention has created overcapacity in many other sectors, including the aluminum, glass, concrete, and other industries. I urge you, as part of the 100 Day Plan to demand that China significantly reduce its net steel production capacity. In addition, I urge you to require China to end these subsidy programs and relinquish state ownership and state control of these steel companies. I ask you to demand similar commitments in other sectors defined by significant state involvement. Although these actions will not be achieved overnight, I urge you to establish a specific timeframe with benchmarks that outlines a clear path for China to fulfill these commitments over the next six months.

Updated and Stronger World Trade Organization Commitments

As part of its commitment to rebalancing the U.S.-China trade relationship, the U.S. should seek to negotiate new and updated World Trade Organization (WTO) obligations to address China's global market distortions. According to the United States Trade Representative (USTR), China has never fully complied with all of its WTO obligations since joining the body in 2001. In addition, some of the problems in the U.S.-China trade relationship have evolved in the last 15 years. The existing WTO framework has not effectively addressed China's far-reaching, unfair trade practices, and U.S. manufacturers and workers have paid the price. Renegotiating WTO commitments would allow the U.S. to establish more comprehensive, updated obligations in key areas, including state-owned and state-controlled enterprises, subsidies, and transparency. I believe a renegotiation of these and other WTO commitments is critical to achieving an equally beneficial bilateral trade relationship with China, and I urge you to incorporate it into your 100 Day Plan.

Non-Market Economy Status

In addition, I urge you to insist that China drop its WTO case against the U.S. for maintaining China's NME status in antidumping cases. Article 15 of China's WTO Accession Protocol Agreement permits the U.S. to continue to treat China as a non-market economy (NME) in antidumping cases as long as China continues to meet the NME criteria as identified under U.S. law. I believe the facts make clear that China does not meet the statutory test in U.S. law to be granted market economy status. And I am pleased that the Commerce Department has decided to conduct a new review of China's market economy status as part of the agency's antidumping and countervailing duty investigations of aluminum foil from China.

It is important to note, however, that China has repeatedly sought to undermine U.S. trade remedy laws at the WTO. As a result of flawed decisions at the WTO, it has become harder for U.S. companies to defend themselves against China's unfair trade practices. I view China's case against the U.S. for its NME designation as part of this broader effort to weaken U.S. trade enforcement tools. If the Chinese government is serious about developing a sustainable U.S.-China trade relationship, it will withdraw the case and instead undertake the market reforms necessary for a complete transition to a market economy.

U.S.-China Bilateral Investment Treaty

Addressing excess overcapacity and state intervention in its economy must be our top trade priorities with the Chinese government. I urge you to stop negotiations on the U.S.-China Bilateral Investment Treaty to ensure that trade enforcement, including steel sector reforms, remains the focus of talks with China. President Xi highlighted the BIT during his visit to the U.S., signaling its importance to Beijing. We should not allow China to make progress on its trade priorities with the U.S. or reward China with expanded U.S. market access until it complies with its existing trade obligations and puts an end to trade practices that are closing steel mills and forcing steelworkers out of jobs.

I support your efforts to address China's unfair trade practices, and I am pleased by the progress that has already been made. For years I have seen talks with the Chinese government produce many press releases but little results. U.S. companies and their workers cannot afford to wait for tough action any longer. I urge you to include these requirements in ongoing 100 Day Plan

negotiations with China. I believe these actions will produce meaningful, tangible benefits for the U.S. companies and workers in the steel sector and other industries that have been harmed for too long by China's unfair trade practices.

Sincerely,

A handwritten signature in blue ink that reads "Sherrod Brown". The signature is written in a cursive, flowing style.

Sherrod Brown
United States Senator